

**MILAN PUBLIC LIBRARY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name MILAN PUBLIC LIBRARY		County WASHTENAW	
Fiscal Year End JUNE 30, 2006		Opinion Date NOVEMBER 28, 2006		Date Audit Report Submitted to State DECEMBER 29, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.			Telephone Number 517 265-6154	
Street Address 121 NORTH MAIN STREET			City ADRIAN	State MI
			Zip 49221	
Authorizing CPA Signature		Printed Name MEREDITH A. MATTHEWS		License Number 1101029000

**MILAN PUBLIC LIBRARY**  
**INDEPENDENT AUDITORS' REPORT**  
**TABLE OF CONTENTS**

	<b><u>PAGE NUMBER</u></b>
Management's Discussion and Analysis	i – vi
Independent Auditors' Report	1 – 2
<b>Basic Financial Statements:</b>	
<b><i>Government-Wide Financial Statements</i></b>	
Statements of Net Assets	3
Statement of Activities	4
<b><i>Fund Financial Statements:</i></b>	
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	6
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	7
Notes to Financial Statements	8 – 17
<b>Required Supplementary Information:</b>	
Independent Auditors' Report on Required Supplementary Information	18
Budgetary Comparison Schedule – General Fund	19
<b>Other Additional Information:</b>	
Independent Auditors' Report on Additional Information	20
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 – 22
Combining Balance Sheet – Nonmajor Governmental Fund Type	23
Combining Statement of Revenues, Expenditures and Change in Fund Balance – Nonmajor Governmental Fund Type	24
Combining Balance Sheet – Permanent Fund	25
Combining Statement of Revenues, Expenses and Changes in Fund Balances – Permanent Fund	26

## **Milan Public Library Management's Discussion and Analysis**

The Milan Public Library (the "Library"), located in the City of Milan in Monroe County, Michigan is in its third year of implementing the requirements of Governmental Accounting Standards Board Statement No. 34 (GASB 34) in its annual audit report. This section presents management's discussion and analysis of the Library's financial performance during the fiscal year ended June 30, 2006 and is intended to serve as an introduction to the Library's basic financial statements. The Library is an independent taxing authority and receives 1.5 mills from the residents of the City of Milan for its operations. This millage rate is subject to Headlee rollback and was assessed at 1.4029 mills. Assets for the Milan Public Library for the fiscal year ending in June 2006 include the General Fund, the Endowment Account with four sub groups, and a Library Planning and Construction Fund.

### **Overview of Financial Statements**

The Library's basic financial statements consist of three basic components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information, required by GASB 34.

### **Government-wide Financial Statements**

The *government-wide* financial statements provide readers information about the Library's finances as a whole, using accounting methods similar to a private-sector business. The two government-wide statements are the Statement of Net Assets and the Statement of Activities.

The *statement of net assets* presents all of the Library's assets and liabilities, the difference between the two being reported as net assets. Capital assets and long-term debt are included as assets and liabilities, respectively, in this statement, which were previously reported in separate account groups. Increases or decreases in the Library's net assets are an indicator of whether its financial position is improving or deteriorating.

The *statement of activities* reports the current year's revenues and expenses, regardless of when cash is received or paid. The governmental activities of the Library include providing a diverse collection of books, periodicals, audio visual materials and online resources to meet informational, educational, cultural, remedial needs of the community with a special role in the community of collecting and preserving local historical and genealogical materials.

### **Governmental Fund Financial Statements**

The *fund financial statements* focus on the individual parts of the Library. The fund financial statements provide more detailed information than the government-wide

statements and focus on the Library's major funds not the Library as a whole. The Library's operational activities are reported in the General Fund.

The focus of the governmental funds is on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the fiscal year. The information should be useful in evaluating the Library's near-term financing requirements. The General Fund and the Permanent Fund are considered to be major funds for the Library. The Permanent Fund is used to account for resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Library's programs. The General Fund accounts for all other resources that do not have a specific purpose. All other governmental funds are considered to be non-major funds, as presented in the Combining Balance Sheet of Non-major Governmental Funds. For the fiscal year ending June 30, 2006, the Library had one Non-major Governmental Fund, the Capital Projects Fund.

The *Notes to the Financial Statements* provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

The statements are followed by *required supplementary information* that further explains and supports the financial statements and include a comparison with the Library's budget for the year.

## **Financial Analysis**

### **Overall Financial Analysis**

The Library had net assets of \$1,246,902 as of June 30, 2006, which decreased \$9,498 from the previous year. Major reasons for the decrease include a continued decline in local donations from York Township, the low interest rates on investments, both for the General Fund and the Endowment Funds—the interest of which is used to supplement purchases for the library, although interest rates are rising. Other reasons for the decrease are the rising cost of health and liability insurance as well as the rise in costs of library materials.

The government-wide Statement of Net Assets and Statement of Activities are summarized in Tables 1 and 2, respectively.

# STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

Table 1.

	<u>Governmental Activities</u>	
<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 123,237	\$ 100,079
Investments	223,844	190,597
Due from other governmental units	<u>15,379</u>	<u>6,719</u>
Total current assets	<u>362,460</u>	<u>297,395</u>
<b>Noncurrent assets:</b>		
Capital assets	1,352,652	1,348,654
Less: Accumulated depreciation	<u>(454,477)</u>	<u>(370,547)</u>
Total noncurrent assets	<u>898,175</u>	<u>978,107</u>
Total assets	<u>\$ 1,260,635</u>	<u>\$ 1,275,502</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 5,743	\$ 5,744
Salaries payable	2,997	9,059
Accrued expenses	<u>4,993</u>	<u>4,299</u>
Total current liabilities	<u>13,733</u>	<u>19,102</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	898,175	978,107
<b>Restricted for:</b>		
Capital projects	5,102	5,102
Nonexpendable endowments	25,000	25,000
Expendable endowments	199,120	188,131
Unrestricted	<u>119,505</u>	<u>60,060</u>
Total net assets	<u>\$ 1,246,902</u>	<u>\$ 1,256,400</u>

**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2006 and 2005**  
**Table 2.**

	<u><b>Governmental Activities</b></u>	
	<u><b>2006</b></u>	<u><b>2005</b></u>
<b>Program revenues:</b>		
<b>Charges for services:</b>		
Membership dues	\$ 900	\$ 600
Charges for services	2,151	2,653
<b>Operating grants:</b>		
Donations	<u>14,122</u>	<u>15,973</u>
Total program revenues	<u>17,173</u>	<u>19,226</u>
<b>General revenues:</b>		
Property taxes received from the City of Milan	294,291	273,074
Investment earnings	6,205	4,115
State sources-unrestricted	11,156	13,455
Penal fines from Monroe and Washtenaw Counties	38,946	39,545
Other	<u>5,678</u>	<u>10,188</u>
Total general revenues	<u>356,276</u>	<u>340,377</u>
Total revenues	<u>373,449</u>	<u>359,603</u>
<b>Expenses:</b>		
Library	299,017	371,220
Unallocated depreciation	<u>83,930</u>	<u>84,672</u>
Total expenses	<u>382,947</u>	<u>455,892</u>
Change in net assets	(9,498)	(96,289)
Reduction of net assets	<u>0</u>	<u>(13,550)</u>
Total decrease in net assets	<u>\$ (9,498)</u>	<u>\$(109,839)</u>

### **Analysis of Individual Funds**

The General Fund fund balance increased \$68,943 as a result of decreased library hours (hence, reduced payroll), elimination of postage meter machine, less frequent janitorial visits, elimination of payphone, staff shortage, and temporary absence of the library director.

The permanent funds include endowment assets in four separate accounts, Mohr/Walls, Sheehan, Phillips and Enrichment that total \$224,120. There is further detail in the combining financial statements that follow the required supplementary information.

The Capital Projects fund balance totaled \$5,102 at the end of the fiscal year. The purpose of the capital projects fund was to begin building a fund for the expansion of the current library, or the building of an additional facility. This project has been put on hold.

### **General Fund Budgetary Highlights**

The local revenue exceeded the budget by \$16,865.

General operating revenue totaled \$362,158 with the final amount budgeted for the fiscal year of \$347,150.

All expenses for the total year, including salaries and wages, purchased services, supplies and materials, capital outlay, miscellaneous and other uses and transactions totaled \$303,317 versus a budget of \$432,163.

### **Capital Asset and Long-term Debt Activity**

#### **Capital Assets**

A server, in the amount of \$3,998, was added to capital assets for the fiscal year ended June 30, 2006. There were no disposals of capital assets for the fiscal year ended June 30, 2006.

#### **Long-term Debt Activity**

As of this time, there is no significant debt activity, nor are there any changes in credit ratings or debt limitations as the library as a unit is legally unable to bond.



### **Factors Bearing on the District's Future**

The library's privacy was compromised when someone hacked into our computer system and began storing files on our server. Our entire system has to be overhauled and updated by a professional. Seven computers will be purchased to help update our system.

The fan units for our heating and cooling system will have to be replaced this year. They are approximately thirty years old and are beginning to leak from corrosion. There are seventeen units in the building.

It had become apparent over the last several years that the 1.5 mills paid by the residents of the City of Milan was not generating enough income to keep up with the rise in costs of materials, and especially the costs of liability and health insurance. Although the library staff had been able to keep well within the total budget, these increasing costs required the use of monies from the fund balance, causing the contingency account to be reduced over the years. After a defeat in February 2005 of a ballot request for an increase of .5 mills for operating expenses, an increase of .25 mills in the November 2005 election was passed.

The library board continues to look at the possibility of forming a Library district in order to equalize the amounts paid by all those residents and contract areas receiving full services from the library.

To the Board of Directors  
Milan Public Library  
Milan, Michigan

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Public Library, as of and for the year ended June 30, 2006, which comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Milan Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Public Library, as of June 30, 2006, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2006 on our consideration of the Milan Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Directors  
Milan Public Library  
Milan, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milan Public Library's basic financial statements. The introductory section, combining permanent fund and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining permanent fund and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

***Robertson, Eaton & Owen, P.C.***

Adrian, Michigan  
November 28, 2006

**MILAN PUBLIC LIBRARY**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2006 and 2005**

<u>ASSETS</u>	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 123,237	\$ 100,079
Investments	223,844	190,597
Due from other governmental units	<u>15,379</u>	<u>6,719</u>
Total current assets	<u>362,460</u>	<u>297,395</u>
<b>Noncurrent assets:</b>		
Capital assets	1,352,652	1,348,654
Less: Accumulated depreciation	<u>(454,477)</u>	<u>(370,547)</u>
Total noncurrent assets	<u>898,175</u>	<u>978,107</u>
Total assets	<u>\$ 1,260,635</u>	<u>\$ 1,275,502</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 5,743	\$ 5,744
Salaries payable	2,997	9,059
Accrued expenses	<u>4,993</u>	<u>4,299</u>
Total current liabilities	<u>13,733</u>	<u>19,102</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	898,175	978,107
<b>Restricted for:</b>		
Capital projects	5,102	5,102
Nonexpendable endowments	25,000	25,000
Expendable endowments	199,120	188,131
Unrestricted	<u>119,505</u>	<u>60,060</u>
Total net assets	<u>\$ 1,246,902</u>	<u>\$ 1,256,400</u>

**MILAN PUBLIC LIBRARY**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2006**  
**With Comparative Totals for the Year Ended June 30, 2005**

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>		<u>Totals Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets 2006</u>	<u>2005</u>
<b>Governmental activities:</b>					
Library	\$ 299,017	\$ 3,051	\$ 14,122	\$ (281,844)	\$ (351,994)
Unallocated depreciation	<u>83,930</u>	<u>          </u>	<u>          </u>	<u>(83,930)</u>	<u>(84,672)</u>
Total governmental activities	<u>382,947</u>	<u>3,051</u>	<u>14,122</u>	<u>(365,774)</u>	<u>(436,666)</u>
<b>General revenues:</b>					
Property taxes, levied for general purposes				294,291	273,074
Investment earnings				6,205	4,115
State sources -- unrestricted				11,156	13,455
Fines				44,043	46,147
Other				<u>581</u>	<u>3,586</u>
Total general revenues				<u>356,276</u>	<u>340,377</u>
Change in net assets				(9,498)	(96,289)
Reduction of net assets					(13,550)
Net assets, beginning of year				<u>1,256,400</u>	<u>1,366,239</u>
Net assets, end of year				<u>\$ 1,246,902</u>	<u>\$ 1,256,400</u>

**MILAN PUBLIC LIBRARY**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**June 30, 2006**

**With Comparative Totals for June 30, 2005**

<b><u>ASSETS</u></b>	<b><u>General Fund</u></b>	<b><u>Permanent Fund</u></b>	<b><u>Other Nonmajor Governmental Funds</u></b>	<b><u>Totals Governmental Funds</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>		<b><u>2006</u></b>	<b><u>2005</u></b>
Cash and cash equivalents	\$ 117,859	\$ 276	\$ 5,102	\$ 123,237	\$ 100,079
Investments		223,844		223,844	190,597
Due from other governmental units	<u>15,379</u>			<u>15,379</u>	<u>6,719</u>
Total assets	<u>\$ 133,238</u>	<u>\$ 224,120</u>	<u>\$ 5,102</u>	<u>\$ 362,460</u>	<u>\$ 297,395</u>
 <b><u>LIABILITIES</u></b>					
Accounts payable	\$ 5,743	\$	\$	\$ 5,743	\$ 5,744
Salaries payable	2,997			2,997	9,059
Accrued expenditures	<u>4,993</u>			<u>4,993</u>	<u>4,299</u>
Total liabilities	<u>13,733</u>	<u>-</u>	<u>-</u>	<u>13,733</u>	<u>19,102</u>
 <b><u>FUND BALANCES</u></b>					
<b>Reserved for:</b>					
Capital projects			5,102	5,102	5,102
Nonexpendable endowments		25,000		25,000	25,000
Expendable endowments		199,120		199,120	188,131
<b>Unreserved, reported in:</b>					
General Fund	<u>119,505</u>			<u>119,505</u>	<u>60,060</u>
Total fund balances	<u>119,505</u>	<u>224,120</u>	<u>5,102</u>	<u>348,727</u>	<u>278,293</u>
Total liabilities and fund balances	<u>\$ 133,238</u>	<u>\$ 224,120</u>	<u>\$ 5,102</u>	<u>\$ 362,460</u>	<u>\$ 297,395</u>

	<b>2006</b>		<b>2005</b>	
Total governmental fund balances	\$	\$ 348,727	\$	\$ 278,293
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in the governmental activities are not financial resources and are not reported in the funds.				
The cost of the capital asset is		1,352,652		1,348,654
The accumulated depreciation is		<u>(454,477)</u>		<u>(370,547)</u>
		<u>898,175</u>		<u>978,107</u>
Net assets of governmental activities		<u>\$ 1,246,902</u>		<u>\$ 1,256,400</u>

The notes to the financial statements are an integral part of this statement.

**MILAN PUBLIC LIBRARY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2006  
With Comparative Totals for the Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Permanent Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals Governmental Funds</b>	
				<b>2006</b>	<b>2005</b>
<b>Revenues:</b>					
<b>Local sources:</b>					
Property taxes	\$ 294,291	\$	\$	\$ 294,291	\$ 273,074
Membership dues – nonresidents	900			900	600
Library fines	5,097			5,097	6,602
Penal fines	38,946			38,946	39,545
Investment earnings	1,649	4,556		6,205	4,115
Charges for services	2,151			2,151	2,653
Donations	7,387	6,735		14,122	15,973
Other	<u>581</u>			<u>581</u>	<u>3,586</u>
Total local sources	351,002	11,291		362,293	346,148
<b>State sources:</b>					
State aid – direct	5,578			5,578	6,739
State aid – indirect	<u>5,578</u>			<u>5,578</u>	<u>6,716</u>
Total revenues	<u>362,158</u>	<u>11,291</u>	<u>-</u>	<u>373,449</u>	<u>359,603</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Salaries and benefits	187,071			187,071	231,438
Purchased services	67,295			67,295	66,697
Supplies and materials	43,444			43,444	48,219
Miscellaneous	1,207			1,207	24,866
Capital outlay	<u>3,998</u>			<u>3,998</u>	
Total expenditures	<u>303,015</u>	<u>-</u>	<u>-</u>	<u>303,015</u>	<u>371,220</u>
Excess (deficiency) of revenues over (under) expenditures	<u>59,143</u>	<u>11,291</u>	<u>-</u>	<u>70,434</u>	<u>(11,617)</u>
<b>Other financing sources (uses):</b>					
Transfers in	302			302	1,501
Transfers out		(302)		(302)	(1,501)
Repayment of prior year taxes					<u>(13,550)</u>
Total other financing sources (uses)	<u>302</u>	<u>(302)</u>	<u>-</u>	<u>-</u>	<u>(13,550)</u>
Change in fund balances	59,445	10,989		70,434	(25,167)
<b>Fund balances:</b>					
Beginning of year	<u>60,060</u>	<u>213,131</u>	<u>5,102</u>	<u>278,293</u>	<u>303,460</u>
End of year	<u>\$ 119,505</u>	<u>\$ 224,120</u>	<u>\$ 5,102</u>	<u>\$ 348,727</u>	<u>\$ 278,293</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Change in fund balances total governmental funds	\$ 70,434	\$ (25,167)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures, and Changes Fund Balances. These costs are allocated over their estimated useful lives as depreciation on the Statement of Activities:		
Depreciation expense	(83,930)	(84,672)
Capital outlay	3,998	
Revenue and expenditures related to prior periods are recognized in the governmental funds, but must be eliminated in the Statement of Activities.		
Expenditures related to prior periods	<u>                    </u>	<u>13,550</u>
Change in net assets of governmental activities	<u>\$ (9,498)</u>	<u>\$ (96,289)</u>



**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Milan Public Library (the "Library") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2003.

**A. Reporting Entity**

The Milan Public Library is governed by an elected six member Board. As required by accounting principles generally accepted in the United States of America, these financial statements present the Milan Public Library as the primary government. There are no component units as of June 30, 2006.

**B. Government-Wide And Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Library. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the Library's activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, direct and indirect State sources, penal fines, and other unrestricted items are not included as program revenues but instead as *general revenues*.

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-Wide And Fund Financial Statements (Continued)**

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Library first utilizes restricted resources to finance qualifying activities.

This government-wide statement of activities reports both the gross and net cost of each of the Library's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, and fines, etc.). The statement of activities reduces gross expenses by related program revenues.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, penal fines, interest income, and other revenues).

The Library does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Library as an entity and the change in the Library's net assets resulting from the current year's activities.

**GOVERNMENTAL FUND TYPES**

**Major Funds:**

**General Fund** – The operations of the General Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Permanent Fund** – A Permanent Fund is used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Library's programs.

**Nonmajor Fund:**

**Capital Project Fund** – A Capital Project Fund is used to account for the acquisition or construction of fixed assets.

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis Of Accounting And Basis Of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and state aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

**D. Other Accounting Policies**

**1. Cash and Investments**

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the investment policy adopted by the governing board authorize the Library to invest in obligations of the U.S. Treasury, certificates of deposit, savings and deposit accounts, commercial paper, U.S. Repurchase Agreements, and the State Treasurer's Investment Pool.

Cash consists of savings, deposit, and money market accounts and are valued at cost.

The cash reported in the Permanent Fund is restricted by donor stipulations.

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

**2. Property Taxes**

Property taxes are levied by the City of Milan on behalf of Milan Public Library and are collected by various municipalities and periodically remitted to the Library. The taxes are levied and become a lien as of July 1 and are due upon receipt of the billing by the taxpayer. The actual due date is August 31, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the City of Milan levied the following amounts per \$1,000 of assessed valuation on behalf of the Library:

<u>Fund</u>	<u>Mills</u>
General Fund-Homestead and Non-homestead	1.4029

**3. Capital Assets**

The Library has a capitalization policy of \$2,000. Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The Library estimates the useful life of assets as follows:

Building	50	years
Equipment and furniture	5 – 15	years
Library books	10	years

**4. Estimates**

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**5. Fund Balances**

Fund balances on the Governmental fund balance sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Capital Projects is the portion of fund balance legally segregated for expenditure within the Capital Projects Fund. The reserve for Nonexpendable Endowments is the amount of principal that is required to remain in tact according to a donor's stipulation. The reserve for Expendable Endowments is the amount restricted for a particular use as stipulated by donors.

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 2. BUDGETS AND BUDGETARY ACCOUNTING**

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated.

The Library's actual and budgeted expenditures for the General Fund have been shown by object. The approved budget of the Library for the General Fund was adopted by object on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). All encumbrances and unexpended budget categories lapse at end of year. The Permanent Fund is not legally required to adopt a budget.

The General Fund incurred one expenditure function in excess of budget. Total expenditures were not incurred in excess of the amount appropriated.

		<u>Final Budget</u>		<u>Actual</u>		<u>Variance</u>
Purchased services	\$	66,950	\$	67,295	\$	(345)

**NOTE 3. CASH**

**Deposits**

Custodial Credit Risk Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$224,480 of the Library's bank balance of \$324,480 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 224,480</u>
--------------------------------	-------------------

**Investments**

The Library's investments of \$194,204 are held in savings accounts for long term purposes. These investments are not subject to investment disclosures as required by GASB Statement No. 40, instead they are included with the deposit footnote above.

The Library's investments of \$29,640 are invested in Michigan Governmental Money Market Funds held by JPMorgan Chase. The money market funds are rated Aaa by Moody's rating service. Eligible investments of the Michigan Governmental Money Market Fund include bonds, securities and other obligations issued by the U.S. Government or its agencies, certificates of deposit and time deposits of eligible financial institutions, share certificates of a state or federal credit union organized and authorized to operate in Michigan, commercial paper rated in the two highest rating agency classifications and mutual funds. The weighted average maturity of this money market fund is 30 days at June 30, 2006.

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 4. CAPITAL ASSETS**

A summary of changes in the Library's capital assets follows:

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Assets not being depreciated – land	\$ 49,200	\$	\$	\$ 49,200
Total assets not being depreciated	<u>49,200</u>	<u>-</u>	<u>-</u>	<u>49,200</u>
Building	569,725			569,725
Equipment and furniture	31,183	3,998		35,181
Library books	<u>698,546</u>	<u></u>	<u></u>	<u>698,546</u>
Depreciable capital assets	<u>1,299,454</u>	<u>3,998</u>	<u>-</u>	<u>1,303,452</u>
<b>Less accumulated depreciation for:</b>				
Building	136,734	11,395		148,129
Equipment and furniture	24,249	2,681		26,930
Library books	<u>209,564</u>	<u>69,854</u>	<u></u>	<u>279,418</u>
Total accumulated depreciation	<u>370,547</u>	<u>83,930</u>	<u>-</u>	<u>454,477</u>
Governmental activities capital assets, net	<u>\$ 978,107</u>	<u>\$ (79,932)</u>	<u>\$ -</u>	<u>\$ 898,175</u>

Capital assets are depreciated over their estimated useful lives using the straight line method of depreciation for all classes of depreciable assets. Depreciation for the fiscal year ended June 30, 2006 and 2005 amounted to \$83,930 and \$84,672, respectively. The Library determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 5. RETIREMENT PLAN**

**PLAN DESCRIPTION**

The Library contributes to the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the Library. MERS is administered by its Board of Trustees. The actuary for the System is Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the Milan Public Library, that authority rests with the Library's Board. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 5. RETIREMENT PLAN (Continued)**

Benefits vest after 6 years of credited service. Library employees who retire at or after age 60 with 10 or more years of service, or age 55 with 15 or more years of credited service (reduced benefit unless Benefit F55 is in effect), or age 50 with 25 or more years of credited service (reduced benefit unless Benefit F50 is in effect) are entitled to a retirement allowance equal to credited service multiplied by 1.7% of the final average compensation (FAC). The system also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute.

**FUNDING POLICY**

Employees are not required to make contributions under the plan. The Library is required to contribute the actuarially determined amount each year.

**ANNUAL PENSION COST**

For the year ended June 30, 2006, the Library's pension contribution is \$11,418 based on wages of \$141,925. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age normal cost method. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] the assumption that benefits will increase between 1.0% to 2.5% per year (annually) after retirement.

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period.

Currently, there is an unfunded actuarial accrued liability of \$85,277. The unfunded actuarial accrued liability is being amortized by a level percent of payroll over a period of 30 years.

**Actuarial Accrued Liability (as of 12/31/05)**

Retirees and beneficiaries currently receiving benefits	\$ 153,966
Terminated employees not yet receiving benefits	
<b>Current employees —</b>	
Accumulated employee contributions including	
allocated investment income	
Employer financed	<u>130,323</u>
<b>Total Actuarial Accrued Liability</b>	<b>284,289</b>
 Net Assets Available for Benefits at Actuarial Value	 <u>199,012</u>
 Unfunded (Overfunded) Actuarial Accrued Liability	 <u>\$ 85,277</u>

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 5. RETIREMENT PLAN (Continued)**

**THREE YEAR TREND INFORMATION**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 14,501	100%	\$ 0.00
6/30/05	17,533	100%	0.00
6/30/06	11,418	100%	0.00

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets [a]</u>	<u>Actuarial Accrued Liability (AAL) Entry Age [b]</u>	<u>Unfunded AAL (UAAL) [b-a]</u>	<u>Funded Ratio [a/b]</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 162,785	\$ 213,966	\$ 51,181	76%	\$ 87,224	59%
12/31/02	164,029	228,120	64,091	72	114,515	56
12/31/03	176,491	265,633	89,142	66	143,248	62
12/31/04	188,749	273,057	84,308	69	134,643	63
12/31/05	199,012	284,289	85,277	70	115,232	74

**NOTE 6. INTERFUND TRANSFERS**

The interfund transfers between the Permanent Fund and the General Fund represent the amount of interest earned by the endowments that is released from restriction and, therefore, available for use by the General Fund.

A schedule of interfund transfers follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 302	Permanent	\$ 302
Totals	\$ 302	Totals	\$ 302



**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 7. MILLARD F. AND MARIE A. PHILLIPS UNITRUST AGREEMENT**

On May 3, 1996, Millard F. and Marie A. Phillips created a charitable remainder unitrust, whereas upon the death of the last of the Grantors, the Trustee shall distribute the trust principal as then constituted and any accrued and undistributed income thereof, other than any amount due the last surviving Grantor, to the Milan Public Library of Milan, Michigan, or any successor public library of the Milan Public Library. The income from the trust estate shall be used for new program development, enhancement, or upgrading of old programs, enhancement and expansion of materials in the genealogy collection, resource materials and electronic equipment for use by the general public. It is intended that these funds not be used for the everyday expenses of operation of the library, such as utilities, salaries, and normal book purchases, or for the cost of construction or renovation of the library building. This new trust shall be known as the Millard F. and Marie A. Phillips Milan Public Library Endowment Trust.

**NOTE 8. RISK MANAGEMENT**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The Library cannot estimate losses from reported and unreported claims at June 30, 2006. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

**MILAN PUBLIC LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE 9. LEASE**

The Library entered into an operating lease agreement with Ervin Leasing Company on October 13, 2005 for the use of a copy machine. The lease term is forty-eight (48) months, ending in October 2009, with payments of \$99 per month.

Rental costs for the fiscal years ended June 30, 2006 and 2005 are \$1,915 and \$1,407, respectively.

Obligations of governmental activities under operating leases at June 30, 2006, are as follows:

<b>Year ended <u>June 30,</u></b>	<b>Ervin Leasing <u>Company</u></b>
2007	\$ 1,188
2008	1,188
2009	1,188
2010	<u>396</u>
	<u><u>\$ 3,960</u></u>

**NOTE 10. REDUCTION OF NET ASSETS**

The Michigan Tax Tribunal granted Visteon Corporation's Motion to Amend to include the 2004 tax year. As a result of this ruling, Visteon's true cash, state equalized, assessed, and taxable values were revised. In order to reflect these revisions on the assessment rolls, the tax rolls also had to be corrected. The City of Milan had to repay Visteon Corporation \$563,861 in prior year property taxes. Milan Public Library's portion of this repayment was \$13,550 at June 30, 2005.

**INDEPENDENT AUDITORS' REPORT ON REQUIRED  
SUPPLEMENTARY INFORMATION**

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

***Robertson, Eaton & Owen, P.C.***

Adrian, Michigan  
November 28, 2006

**MILAN PUBLIC LIBRARY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**

**For the Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues:</b>				
Local sources	\$ 334,150	\$ 334,150	\$ 351,002	\$ 16,852
State sources	<u>13,000</u>	<u>13,000</u>	<u>11,156</u>	<u>(1,844)</u>
Total revenues	<u>347,150</u>	<u>347,150</u>	<u>362,158</u>	<u>15,008</u>
<b>Expenditures:</b>				
Salaries and wages	213,833	214,733	187,071	27,662
Purchased services	63,675	66,950	67,295	(345)
Supplies and materials	47,470	47,670	43,444	4,226
Miscellaneous	1,400	1,400	1,207	193
Capital outlay	<u>2,500</u>	<u>6,500</u>	<u>3,998</u>	<u>2,502</u>
Total expenditures	<u>328,878</u>	<u>337,253</u>	<u>303,015</u>	<u>34,238</u>
Excess of revenues over expenditures	<u>18,272</u>	<u>9,897</u>	<u>59,143</u>	<u>49,246</u>
<b>Other financing sources (uses):</b>				
Transfers in	3,225	3,726	302	(3,424)
Transfers out	<u>(91,497)</u>	<u>(85,013)</u>		<u>85,013</u>
Total other financing sources (uses)	<u>(88,272)</u>	<u>(81,287)</u>	<u>302</u>	<u>81,589</u>
Change in fund balance	(70,000)	(71,390)	59,445	130,835
<b>Fund balance:</b>				
Beginning of year			<u>60,060</u>	
End of year			<u>\$ 119,505</u>	

**INDEPENDENT AUDITORS' REPORT ON  
ADDITIONAL INFORMATION**

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Milan Public Library taken as a whole. The accompanying information identified in the table of contents as combining financial statements and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

***Robertson, Eaton & Owen, P.C.***

Adrian, Michigan  
November 28, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Milan Public Library  
Milan, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Public Library, as of and for the year ended June 30, 2006, which collectively comprise Milan Public Library's basic financial statements and have issued our report thereon dated November 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Milan Public Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors  
Milan Public Library  
Milan, Michigan

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Milan Public Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

***Robertson, Eaton & Owen, P.C.***

Adrian, Michigan  
November 28, 2006

**MILAN PUBLIC LIBRARY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUND TYPE**

**June 30, 2006**  
**With Comparative Totals for June 30, 2005**

<u><b>ASSETS</b></u>	<u><b>Capital Projects</b></u>	<b>Total Nonmajor Governmental Fund</b>	
		<u><b>2006</b></u>	<u><b>2005</b></u>
Cash and cash equivalents	\$ <u>5,102</u>	\$ <u>5,102</u>	\$ <u>5,102</u>
Total assets	\$ <u>5,102</u>	\$ <u>5,102</u>	\$ <u>5,102</u>
 <u><b>FUND BALANCE</b></u>			
<b>Reserved for:</b>			
Capital projects	\$ <u>5,102</u>	\$ <u>5,102</u>	\$ <u>25,182</u>
Total fund balance	\$ <u>5,102</u>	\$ <u>5,102</u>	\$ <u>25,182</u>



**MILAN PUBLIC LIBRARY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGE IN FUND BALANCE**

**NONMAJOR GOVERNMENTAL FUND TYPE**

**For the Year Ended June 30, 2006**  
**With Comparative Totals for the Year Ended June 30, 2005**

	<u>Capital Projects</u>	<u>2006</u>	Total Nonmajor Governmental <u>Fund</u> <u>2005</u>
<b>Revenues:</b>			
<b>Local sources:</b>			
Other	\$ _____	\$ _____	\$ <u>1,720</u>
Total revenues	_____	_____	<u>1,720</u>
<b>Expenditures:</b>			
<b>Current:</b>			
Other expenditures	_____	_____	<u>21,800</u>
Total expenditures	_____	_____	<u>21,800</u>
Net change in fund balance			(20,080)
<b>Fund balance:</b>			
Beginning of year	<u>5,102</u>	<u>5,102</u>	<u>25,182</u>
End of year	<u>\$ 5,102</u>	<u>\$ 5,102</u>	<u>\$ 5,102</u>

**MILAN PUBLIC LIBRARY**  
**COMBINING BALANCE SHEET**  
**PERMANENT FUND**

**June 30, 2006**  
**With Comparative Totals for June 30, 2005**

<u>ASSETS</u>	<u>Endowment</u>	<u>General Purpose Enrichment</u>	<u>Mohr/ Wall</u>	<u>Sheehan</u>	<u>Phillips</u>	<u>Totals</u> <u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 276	\$	\$	\$	\$	\$ 276	\$ 22,534
Investments	<u>          </u>	<u>59,623</u>	<u>60,998</u>	<u>50,784</u>	<u>52,439</u>	<u>223,844</u>	<u>190,597</u>
Total assets	<u>\$ 276</u>	<u>\$ 59,623</u>	<u>\$ 60,998</u>	<u>\$ 50,784</u>	<u>\$ 52,439</u>	<u>\$ 224,120</u>	<u>\$ 213,131</u>

**FUND BALANCES**

<b>Reserved for:</b>							
Nonexpendable endowments	\$	\$	\$	\$ 25,000	\$	\$ 25,000	\$ 25,000
Expendable endowments	<u>276</u>	<u>59,623</u>	<u>60,998</u>	<u>25,784</u>	<u>52,439</u>	<u>199,120</u>	<u>188,131</u>
Total fund balances	<u>\$ 276</u>	<u>\$ 59,623</u>	<u>\$ 60,998</u>	<u>\$ 50,784</u>	<u>\$ 52,439</u>	<u>\$ 224,120</u>	<u>\$ 213,131</u>

**MILAN PUBLIC LIBRARY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND BALANCES**

**PERMANENT FUND**

**For the Year Ended June 30, 2006**  
**With Comparative Totals for the Year Ended June 30, 2005**

	<u>Endowment</u>	<u>General Purpose Enrichment</u>	<u>Mohr/ Wall</u>	<u>Sheehan</u>	<u>Phillips</u>	<u>Totals</u> <u>2006</u>	<u>2005</u>
<b>Revenues:</b>							
Contributions	\$	\$ 3,085	\$ 1,550	\$ 1,000	\$ 1,100	\$ 6,735	\$ 12,350
Investment earnings		<u>1,278</u>	<u>1,227</u>	<u>995</u>	<u>1,056</u>	<u>4,556</u>	<u>3,727</u>
Total revenues		<u>4,363</u>	<u>2,777</u>	<u>1,995</u>	<u>2,156</u>	<u>11,291</u>	<u>16,077</u>
<b>Expenses:</b>							
Donations to General Fund	<u>100</u>	<u>22</u>	<u>71</u>	<u>39</u>	<u>70</u>	<u>302</u>	<u>1,501</u>
Total expenses	<u>100</u>	<u>22</u>	<u>71</u>	<u>39</u>	<u>70</u>	<u>302</u>	<u>1,501</u>
Change in fund balances	(100)	4,341	2,706	1,956	2,086	10,989	14,576
<b>Fund balances:</b>							
Beginning of year	<u>376</u>	<u>55,282</u>	<u>58,292</u>	<u>48,828</u>	<u>50,353</u>	<u>213,131</u>	<u>198,555</u>
End of year	<u>\$ 276</u>	<u>\$ 59,623</u>	<u>\$ 60,998</u>	<u>\$ 50,784</u>	<u>\$ 52,439</u>	<u>\$ 224,120</u>	<u>\$ 213,131</u>

November 28, 2006

To the Board of Directors  
Milan Public Library  
Milan, Michigan

We have audited the basic financial statements of Milan Public Library as of and for the year ended June 30, 2006, and have issued our report thereon dated November 28, 2006.

In planning and performing our audit of the basic financial statements of Milan Public Library for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

The Board of Directors is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we communicated to Mrs. Armitage at our exit conference. The discussion included, but was not limited to, preventative measures already in place at Milan Public Library that we have reviewed, and the suggested improvements that could reinforce those measures.

Page 2

November 28, 2006

To the Board of Directors  
Milan Public Library  
Milan, Michigan

## **INTERNAL CONTROL**

Segregation of duties in the business office is a desired control that the Library should have to maximize the effectiveness of their internal control over receiving, disbursing, recording and reporting financial transactions. However, we also know that this requires additional funds to support, and given the size of the Library and the budget constraints you are currently under, it is not feasible to hire additional staff to get the desired controls. We recommend that administration review the current policies and determine if there is a way to achieve the desired controls without adding additional costs. We are available to consult with you on this issue, if desired.

## **P.A. 621 COMPLIANCE**

Part of our audit includes the testing of compliance with laws and regulations that have a material effect on the presentation of the financial information of the Library. Public Act 621, Uniform Accounting and Budgeting Act requires that a resolution be adopted prior to the beginning of the fiscal year that would allow the expenditure of funds starting July 1. Your budget is adopted by object, which is shown in the Required Supplementary Information section of your financial report. Prior to year end you amend the budget with the information available so that no expenditures would be made that are in excess of your appropriations approved. However, we have found that there was one object where the expenditures were over the approved budgeted amount. This is disclosed in your notes to the financial statements on page 12.

We wish to thank your staff for their assistance in the performance of our audit. Without their assistance, our job would have been much more difficult. If you have any questions on these or other matters, we are available for consultation.

***Robertson, Eaton & Owen, P.C.***